

1 MR. BAKER: Thank you, Mr. Chairman. Mr. Reiman,
2 I'm going to start with you on the end there.

3 I saw your notes for your presentation really as
4 you were making them, and certainly, you didn't see my notes
5 before you made your speech this morning. But suffice it to
6 say, you made several points that I agree with. And I want
7 to go through some of those as a preface to my question.

8 If I misstate any of these, I'm sure you'll
9 correct me.

10 MR. REIMAN: Well, if you agreed with me, just go
11 right ahead.

12 MR. BAKER: I want to make sure we have them right
13 here.

14 First, size does matter, and smaller is better.
15 Second, subsidies must be competitively neutral. You stated
16 the case a little more strongly that subsidies in free
17 markets are natural enemies. I don't know if I'd go quite
18 that far, but we'll leave that for the moment.

19 Third, it is the public policy to keep telephone
20 service affordable. And of course, this is stated in
21 Section 254(b)(1). You also go on to say, and I also agree,
22 that we would not design a system that subsidizes rates that
23 have been kept far below any rational definition of
24 reasonable, so, like \$5 a month. And that stating the
25 obvious, customer rate increases are politically unpopular.

1 The issue I'd like to discuss with you, and I'll
2 take your comments first and than anyone else on the panel
3 who cares to comment. I'd like to discuss the somewhat
4 sensitive issue of rate rebalancing as it relates to reform
5 of high cost fund support.

6 Section 254(b)(3) refers to rural services and
7 rates which are reasonably comparable to those in urban
8 areas. But this is a two edge sword, because I don't think
9 that section of the Act, nor I, nor anyone else would
10 suggest that if you had a customer with a \$7 rate and a \$70
11 cost, that the rates go all the way up to the costs. But
12 again, a reasonably comparable to urban rate, might suggest
13 that that \$7 go to \$17. That rural rate payers pay
14 something more along the lines of a city rate, if you will,
15 setting aside the question of what the costs are for those
16 urban rate payers, which may be below what they're actually
17 paying.

18 So, all of which is a pretty longwinded preface to
19 the question of, how do we address rate rebalancing in this
20 context, because while there -- if we want to set up an
21 efficient -- sufficient and efficient fund to use Mr.
22 Bluhm's characterization earlier, if that requires rate
23 rebalancing, though, how are we going to avoid a situation
24 where we see some people's rates rise dramatically all in
25 the name of high cost fund support?

1 MR. REIMAN: I forgot who this morning talked
2 about that maybe what we need this first go around is a B
3 minus. Since I have two kids still in school, I'm not
4 willing on public record, to say that a B minus is ever
5 acceptable. But I do think that that's a fair concept.

6 In the spirit today of trying to find common
7 ground, I've been listening to the question, trying to find
8 something from each presentation that I would agree with,
9 and I'm still working on some of it. But one of the things
10 that really stood out was Mr. Weller's chart this morning
11 with all the yellow stuff on the left, and that's where
12 we're really concentrating on some solutions, and this huge
13 gap of rate imbalance on the right.

14 So, really the thrust of my comments this morning
15 is we can't ignore that huge gap on the right, which I'll
16 conveniently call the rate rebalancing question, because if
17 we only concentrate on the left-hand side of his chart, than
18 we get into engineering an answer that seems to come out
19 with right numbers without having tried to fix the problem.

20 Now, specifically, to your question, I do think
21 that there is a limitation on what we fixed in some
22 locations because of the need for reasonable comparable
23 rates. But there's a lot that the states can do before you
24 get to that location.

25 And the example I use in my remarks about our

1 Ameritech region, we have a number of companies --
2 independent telephone companies that have rates not at \$5
3 but under \$5. I don't think that anyplace in the country
4 should be subsidizing the difference between the \$3.50 or \$4
5 a month rate and whatever either the statewide average is or
6 whatever we could take it up to before we run into the
7 problem of reasonably comparable.

8 I do think for almost all of the issues we've
9 talked about, like it or not, rate rebalancing is a
10 fundamental issue and it's best addressed, in fact, has to
11 be addressed by the states. We've talked -- I could argue
12 with Mr. Lubin all day as to why we don't have more
13 residential competition. And he would say, "It's because
14 I'm a bad monopolist making too much money." Of course, in
15 trying to find common ground, I'm assuming that all of his
16 remarks were geared to RBOC's other than Ameritech because
17 we don't receive high cost funds.

18 And I would say it's because his company is
19 getting assistance, keep us out of long distance. If I
20 throw both of our arguments aside and just looked at it as
21 an economist would, I'd say that in many of our areas, it
22 would make no sense whatsoever for a company to come in and
23 try to compete with such highly subsidized rates.

24 So, the Commission's, state and federal, need -- I
25 think, need to balance some of these principles that Mr.

1 Cooper -- Dr. Cooper talks about, be guided by the
2 principle, yet we want universal service support to keep
3 rates affordable. We want competition. We want investment
4 in infrastructure, but we have to balance all three. So, I
5 do think there is a limitation of how far we can go in rate
6 rebalancing.

7 By the way, for Mr. Lubin, in our states, we see
8 access charge reductions a key part of rate rebalancing.
9 It's not just rebalancing rates between res. and bus. We
10 think that's the place where access charges will be reduced
11 as part of the three-legged stool of access charges,
12 business rates and residence rates.

13 And by the way, as an aside, since I haven't got
14 to answer a question yet, I think Commissioner Johnson, your
15 question about, can a Commission -- can a regulator insure
16 that reductions are flowed through to end users? I would
17 maintain there's a much easier job doing that at the state
18 commission level on a state by state basis, than it is for
19 the FCC on a national level.

20 MR. COOPER: Let me try the \$7 rate, which is one
21 that I frequently encounter. When you look at that \$7 rate,
22 I want you to ask yourself, what do they get? And the
23 question is, if you live in a rural area and you incur
24 extremely high intraladder long distance bill, than you
25 ought to factor that in when you're comparing. And so, if

1 the average person in that \$3 area ends up with a very large
2 intraladder, than the argument can be made that when we look
3 at those two things together, the \$3 rate is misleading you.
4 And actually, the cost of telephone service to do the things
5 that people do on a daily basis, is about the same.

6 Now, if you could look at that \$7 rate and say,
7 their intra -- their total is \$10, and the urban bill is \$25
8 for that, than I can say, "Yes, maybe there's a
9 justification for rebalancing." But you can't just look at
10 that \$7.

11 MR. REIMAN: Dr. Cooper, I would not disagree.
12 And I think Ameritech's point is we don't want to establish
13 a large federal fund that tries to fix the whole problem,
14 because you want the state commissions to continue to have
15 the incentive to make that kind of investigation. And then,
16 after the states have had an opportunity and have done what
17 they can, than if there's a shortfall, we'd look at it, but
18 the Federal Government should not pick it up in the first
19 instance. The state should have the first shot at their
20 responsibility.

21 MR. BAKER: Mr. Sichter?

22 MR. SICHTER: An example was given, and I think
23 it's a good example of what's wrong with the system today is
24 the way we do rate making today is sit down with a map, and
25 we draw circles around it, and we tell the customer, "You

1 call anybody within that circle, it's free. You go outside
2 that circle and the bottom drops off because we charge
3 exorbitant toll rates because we build subsidies -- access
4 subsidies into those toll rates."

5 Now, the answer -- the issue of the small calling
6 scope in these areas is let's charge -- set up a regime in
7 which these customers are charged cost-based toll rates, and
8 it becomes much less of an issue. Let's not devalue their
9 service because we built the subsidies in the toll rates and
10 than give them another subsidy because devalued their local
11 service. That makes no sense.

12 MR. BAKER: Mr. Chairman, are you sure you want to
13 get up while I've got the mike? That might be a dangerous
14 thing. Mr. Weller?

15 MR. WELLER: I think I am headed along the same
16 lines as Mr. Sichter. I think we get into a circle where we
17 try to use toll and access rates to raise subsidies, and
18 than find that those high toll and access rates hurt a lot
19 of the very people that we're most trying to help, people in
20 rural areas and people with low incomes, who, as I said,
21 spend half their bills on toll calls.

22 So, then we, according to Mr. Cooper, we go and
23 make a further adjustment in their local rate to compensate
24 them for the subsidies we're requiring them to pay to these
25 toll rates. It would seem to be -- make much more sense to

1 attack the problem more systematically and get the subsidies
2 out of the toll and access rates than those customers
3 wouldn't be hurt by them and everybody can pay on a much
4 more uniform basis for subsidies instead of having these
5 pockets of harm that we do with these out of line rates.

6 I'd also observe that the FCC doesn't have
7 jurisdiction over local rates. And so, we can't really take
8 specific actions to direct states as to what to do about
9 their local rate making. But it does have control over some
10 portion of the implicit subsidy flow, the part that comes
11 from interstate.

12 And if we were to take a significant action to
13 reduce that flow and lower interstate charges dramatically,
14 I think that would create a significant incentive for states
15 to address their own subsidy flows because they would be
16 concerned about arbitrage between the relatively high access
17 and toll rates, they would still be relying on, and the very
18 low ones that the FCC would have been put in place.

19 So, I think this is a positive step that the FCC
20 can take that's good in an of itself, and that also creates
21 good incentives for the states and doesn't rely on any sort
22 of plan that tries to direct states to do anything.

23 And the final thing I'd say is, in addition to
24 these sort of incentives that could be built into a cost-
25 based plan, one of the things I like about ultimately

1 transitioning to a competitive bidding process, is that I
2 think it makes any regulator face up to the costs of the
3 requirements that that regulator establishes. So, if a
4 given Commission says, "I want to have \$7 rates," that
5 Commission knows that it's going to get higher bids from the
6 carriers that could possibly supply that service as a
7 result.

8 If it's willing to have higher rates as part of
9 its universal service requirement, you will get lower bids.
10 I think that moves the determination of universal service
11 support levels out of the hearing room and into the
12 marketplace. The Commission still has control about what
13 it's asking for. It doesn't have control about what it
14 costs anymore.

15 If you think about it, it's a very funny process
16 where you're doing public procurement, which is really what
17 this is. You're asking for a function to be performed. And
18 you have one agency that has control of what's being bought
19 and also what's being paid for that. And that wouldn't like
20 right in any sort of other procurement that you might do,
21 and I think the incentive system is not very good.

22 I think that a bidding system corrects those
23 incentives. It allows the Commission to have any sort of
24 universal service that it's willing to pay for. And I think
25 that's helpful.

1 MR. BAKER: Mr. Bush?

2 MR. BUSH: Yes, Commissioner. I think I would
3 agree with a lot of what was said here, but you made a good
4 point early on. In the final analysis, it's a political
5 problem. I mean, as we talk about the difference or the
6 size of the universal service fund determined based on the
7 differential between the price that is paid for that service
8 and the forward looking cost model to charge the service --
9 to offer the service, that is, at least in our opinion, the
10 root implicit universal service fund obligation. That's
11 where the funding need is created.

12 Clearly, steps in reducing costs and/or increasing
13 the price that's paid by the universal service subscriber,
14 can address that fund. Rate rebalancing is a way and one
15 that we certainly don't object to. But it is certainly a
16 difficult process to go through. And it is just the reality
17 of the situation. So, to the extent that you've got the
18 political problem in front of you, we need to also move
19 forward with a funding mechanism that deals with the entire
20 implicit subsidy absent any action to rebalance rates. The
21 two solutions to the same problem.

22 MR. BAKER: If I could just make a little response
23 to that, see, I think Dr. Cooper made a very good point of a
24 few moments ago, that you sort of have to compare apples to
25 apples and look at the, you know, total bottom line on the

1 bill. And if a higher local rate goes hand in hand with
2 access charge reductions to get flow-through, which means
3 lower toll rates and at the end of the month, the customer's
4 got, you know, better service for a lower price, than
5 obviously, we've done the right thing.

6 And you know, I hope I'm not wavering on my
7 commitment to free markets but I think that if we end up
8 with a situation where we say, "Well, we've got a much more
9 economically efficient model, and oh, by the way, your
10 average consumer is paying, you know, 10 or 20 percent more
11 on his bill every month, and that's something that would
12 appear a victory." Hopefully, we're not headed in that
13 direction.

14 Mr. Shiffman?

15 MR. SHIFFMAN: That's exactly the reason why the
16 ad hoc plan moved off of revenues from any specific bucket
17 of services and back to costs, because we struggled,
18 actually, with the idea of trying to look at what amount of
19 shortfall toll was comparable with big EAS areas. And after
20 struggling with it and looking around the country to
21 determine there was no real way of creating a standard
22 benchmark, so we were forced back to looking at the
23 divergence of costs.

24 And that is, that costs is -- because the
25 aggregation of costs equals the total amount of revenues, in

1 aggregate, that the only good surrogate for creating equal
2 calling areas or equal rate packages was to compare the same
3 bucket of costs from one jurisdiction -- from one company to
4 another and between jurisdictions.

5 MR. BAKER: Thank you all very much.

6 COMMISSIONER NESS: Chairman Wood?

7 MR. WOOD: One of the down sides about going last
8 is I think Gloria you asked all my questions about how do
9 you turn the volumes up and down for Mr. Wendling's plan,
10 and I was really intrigued by the answers. And we'll just
11 kind of go on the record saying I think that an interesting
12 way we ought to maybe conserve going forward.

13 But let's move from methodology and allocation to
14 the end point, which is how do you collect, or do you
15 collect it? Do you absorb it as a cost of doing business or
16 as a carrier, you're being assessed your payments here, or
17 not? And I think I speak from, I think, Dave Baker's answer
18 just right there at the end it's free mark credentials for
19 all of us little young bucks that came with the '94
20 elections or at question in light of recent events in the
21 industry, that have attempted to increase costs to consumers
22 -- to customers.

23 And in Texas, we tried to make this transfer of
24 the subsidy from implicit to explicit a user-friendly type
25 thing, but that had a shelf life of about a hot cup of

1 coffee. I wonder if you folks who are smart enough to think
2 this stuff through, have a better way than what we've
3 experienced. Certainly, my colleagues at the Federal and
4 we, at the state level, probably on around the bend, about
5 letting the customer know where the rates went down so that
6 they're not so unhappy with where the rates are going up.

7 And let me just start with Mr. Lubin here on AT&T
8 IXC, and Mr. Sichter, if you have a Sprint answer on that,
9 as well. It seems to me from putting the bill together,
10 that it's just as easy to show a revenue credit for access
11 going down as it is to show a revenue increase for a pixie
12 or for SLS assessment going up.

13 Have any of the IXC's consider this idea? Your
14 access goes down a nickel, say. Nickel times 500 minutes is
15 a \$25 credit on the consumer's bill. Why don't you just
16 leave your rate structure alone and show the credit?

17 MR. SICHTER: If I understand what you're talking
18 about, you'd have a uniform reduction for all customers.

19 MR. WOOD: Is access not assessed in a uniform
20 manner?

21 MR. SICHTER: Yes, but there's -- there's,
22 obviously, a lot of other factors that probably Joel is
23 better able to explain than I am in the pricing of the
24 interexchange services. That we can, for example in our
25 Sprint cents plan, it's 10 cents a minute. I mean,

1 consumers understand that.

2 When we pass access reductions here, we don't pass
3 them through uniformly to all customers. We're not going to
4 change our dime a minute, nine and a half cents a minute or
5 whatever that might turn out to be. You know, there's a lot
6 of variables in the interchange market that require us to
7 use more rates than others.

8 The answer is, no, we do not agree with a uniform,
9 across the board, pass through of access reductions. In
10 aggregate, yes, we pass them through and more. But it's a
11 competitive market and pressure to reduce rates to
12 particular customers and particular services varies quite a
13 bit. A uniform pass through makes no sense in a market
14 context.

15 MR. WOOD: Mr. Lubin, I assume you would agree?

16 MR. LUBIN: Yes, but let me clarify at least in
17 terms of AT&T's point of view. And that is, once regulators
18 restructure be it access, be it implicit to explicit
19 subsidies, from my point of view the price structures that
20 we put in the marketplace are going to follow that.

21 Now, let me spend a moment as to why that is.
22 Right now you see AT&T, other competitors marketing very
23 heavily various marketing plans in terms of 10 cent minutes,
24 15 cent minutes, nickel a minutes, whatever. When we saw
25 this coming in late '97, it was clear to us at the time that

1 universal assessments are going to be changing over time,
2 starting out one way, potentially changing July of '98,
3 potentially changing of January of '99, potentially changing
4 subsequent after that.

5 As those percentages change, that potentially has
6 a significant impact if we just bury into the unit rates, as
7 we are marketing. And that's what was just said, is we're
8 spending a lot of dollars in terms of marketing and
9 campaigning particular plans. We're going to continue to
10 market those plans and don't want to create -- maybe this is
11 tongue and check here, customer confusion in terms of
12 changing those rates.

13 MR. WOOD: I think you passed that.

14 MR. LUBIN: Yeah. That's probably the case. But
15 the fact is in January of 1998, we put a line item on the
16 bill for business. We publicly said we were going to do it
17 for residents. And again, the point was, as these things
18 are becoming explicit, to make them explicit, whether that
19 is the universal service recovery, whether that is a
20 restructure of access into flat-rated charges or usage-
21 related charges. You know, my view is what's going to
22 happen is however those structures come about, they are
23 going to be driven into the marketplace.

24 But then you raise another question. I think it's
25 a fair question. Well, that's only half the equation. That

1 half of the equation is where there have been effective,
2 moving of making things implicit to explicit, restructuring.
3 And as those things occurred, there were other access
4 reductions such that -- in fact, I think the FCC wrote to
5 the Hill, and had a nice chart. And in that chart, showed
6 the aggregate impacts of January 1998. And I think the
7 number was a minus number, maybe \$35 million if put in all
8 the puts and takes of it.

9 And I think what was legitimately said associated
10 with that, was that on average, customers are better off.
11 And I think that was the impact of that chart. I think that
12 was --

13 MR. WOOD: And as a regulator, I've run the
14 numbers, too. But I think you guys have got to help these
15 guys and me out here on the perceptions game, because we are
16 losing that battle. Customers think that rates are going
17 up, when, in fact, they are not.

18 MR. LUBIN: Right.

19 MR. WOOD: Let me ask a question. If an access
20 charge is, say, reduced by -- well, interstate is -- I don't
21 know, kind of low. But just saying tax is reduced by a
22 nickel. Would it be possible in a LEC bill to just show a
23 nickel credit on the LEC bill and keep billing these guys
24 what you've been billing them, but show the customer that
25 your rates have gone down by the amount that you're getting

1 from the universal service fund? Make the same question
2 applicable to the interstate. I think it's easier since
3 that's what we're here -- interstate rates.

4 Say, you get a hundred million bucks out of the
5 interstate kitty. You got to drop your rates a hundred
6 million bucks somewhere. Assume that equates to a two cent
7 reduction in your total -- or just say, two cent reduction
8 in CCL terminating. Could you show that on your customer's
9 bill as a credit to his LEC bill since it is, after all, LEC
10 revenues that access represents?

11 MR. WELLER: Commissioner, perhaps I'm not
12 absorbing the idea, because often we're not the same people
13 billing. You know, in other words, if we --

14 MR. WOOD: Same minutes.

15 MR. WELLER: -- were seeing the same minutes and
16 providing the customer the same bill for the same minutes,
17 we might be able to do that. But a lot of the IXC's for a
18 lot of their customers have taken the billing to themselves
19 and for higher use customers we may not use all of the
20 minutes in a consistent way. Or access billing system
21 certainly aren't going to track those minutes on a per
22 customer basis. And it's certainly not designed to turn
23 them into a end user bill.

24 MR. WOOD: So, your switch does not count -- just
25 assume inter and intra were irrelevant. Anybody that dials

1 a one plus, yours doesn't count the number of minutes that
2 represents?

3 MR. WELLER: We might be able to do that. I would
4 have to check, frankly. But you know, you've got minutes
5 going to different IXE's possibly.

6 MR. WOOD: But you wouldn't care which IXE it went
7 to because you're -- the rates you're charging them just
8 went down by two cents. So, whoever you're charging it to,
9 that's a different part of the billing department than what
10 you're -- the bill that you're sending your retail customer.
11 Isn't it? I mean, you send him a billion minutes but you
12 sent her -- you know, you spoke on the phone for 75 minutes
13 this month.

14 MR. SICHTER: A short answer here, and you're
15 probably familiar with this one having been in industry for
16 a few months anyways, is that it would require massive
17 changes in our system.

18 MR. WOOD: I was told that about adding something
19 on a bill long ago, but if that happened real fast --

20 MR. SICHTER: The way we capture minutes is we do
21 not capture them. We just capture them real time. So, you
22 make a call, he makes a call, and it's all in one tape. The
23 way you have to do this is, and we've done it to do studies,
24 is you have to write special programs for your toll tapes
25 off and associate with them with individual telephone

1 numbers, and than you've got to, you know, have billing
2 system modifications, too.

3 So, one, it's possible. Two, it's expensive. And
4 three, it'll probably take our data people five years to do
5 it.

6 MR. BROWN: One of the things -- I've already said
7 a number of times and I kind of quantified this morning how
8 much implicit support we have in access. Access is a big
9 part of our revenue stream. That revenue is very variable
10 because Joel and Jim are -- have today and in the future,
11 will have more sources of buying access. So, I need to
12 reduce my prices.

13 MR. WOOD: I know you do. You two have an
14 incentive to solve this problem.

15 MR. BROWN: And it's also unfortunate that our
16 first experience in funding universal service with schools
17 and libraries which was new money into the system. That
18 system was not there. That money was not in the system
19 before. So, it is an increase on somebody's bill and that
20 may be we why --

21 MR. WOOD: Didn't your access drop at the same
22 time? Didn't you drop the access by a corresponding amount?

23 MR. BROWN: Yeah, and unrelated, totally different
24 thing. You're absolutely right. And I hate the part of my
25 job where I have to explain all that, because it doesn't

1 make any sense to the consumer.

2 On high cost, that is going to be a dollar for
3 dollar swap. And you know, one of the reasons we want the
4 rebalancing as much as possible to go on the states, because
5 I think you are in a better position to kind of match those
6 up, so consumers can see.

7 On the interstate side, I do see a problem. We
8 are regulated for our rates. They are not regulated for
9 their prices. It's a squishy system.

10 MR. LUBIN: Chairman?

11 MR. WOOD: Sure. I'll let you have the last word.

12 MR. LUBIN: I'm just curious in terms of, if
13 people put on their bills that said, "Here's the amount of
14 access that has come down over the last few years, and
15 here's the benefits that have been flowed through," is that
16 something that you view would be helpful or not?

17 MR. WOOD: Generally, but -- yes, as informational
18 matter. But I think when people are writing a check each
19 month, they don't want information. They just want to know
20 that their rates went down or at least held even. And I'm
21 not sure they're getting that message at all now based on
22 the calls we get on our consumer hotline.

23 I mean, I thought the pixie was supposed to drop
24 minutes of use rate on access, but I think the other of the
25 big three is not sitting on this panel, through a big charge

1 in the first three months of this year on their consumer's
2 bill but didn't adjust the MOU rate one penny. So, you had
3 a net increase of real dollars that real people had to pay
4 with real dollars. And that's not what I think this whole
5 game is about.

6 So, I look forward to working with the Commission.
7 I appreciate Chairman Kennard your inclination and that on
8 the part of your colleagues to involve the Joint Board in a
9 formal way later on. I hope by that time that all the
10 bright minds in this room can work on a more effective way
11 to let the customer know that this is something we're all
12 doing on their behalf because I don't think they're getting
13 that message yet.

14 CHAIRMAN KENNARD: Thank you, Mr. Chairman. Did
15 you want to clarify something?

16 COMMISSIONER NESS: I just wanted to clarify one
17 point which I believe needs to be focused on at that moment.
18 Mr. Brown, you just mentioned that while schools and
19 libraries with brand new funding, first time weren't doing
20 anything for universal service. We've been collecting and
21 funding universal service for way many years now.

22 We've been collecting and funding for high cost.
23 We've been -- your organization receives a portion of it
24 all. I'm sure you believe too low, but you've been
25 receiving it nonetheless. And we've been collecting for low

1 income consumers for a long period time. We've expanded
2 that program, in fact -- and incorporated all of the states
3 so that everybody has an opportunity to collect that if they
4 are in low income.

5 The fact that we added the additional program to
6 the mix does not detract from the fact that we've been doing
7 this other fundings for a real long time.

8 MR. BROWN: Well, perhaps my point was
9 misunderstood. New funding for high cost areas will be
10 offset dollar for dollar by reductions elsewhere. So, it's
11 easier to show those --

12 COMMISSIONER NESS: If we do it right.

13 MR. BROWN: And I'm sure you will.

14 CHAIRMAN KENNARD: Mr. Powell, I'm not sure if
15 you've got into the mix here.

16 COMMISSIONER POWELL: I'm just learning.

17 CHAIRMAN KENNARD: You're just learning? Okay.

18 COMMISSIONER POWELL: I'll jump in when I need to.

19 CHAIRMAN KENNARD: Okay. Please go ahead.

20 MS. JOHNSON: Mr. Brown, could you explain to me
21 again when you were -- the last point that you made. You
22 said the high cost fund will be offset -- those universal
23 service dollars will be offset dollar for dollar and that
24 the other programs will not, or you didn't add that by I'm
25 assuming --

1 MR. BROWN: Yeah. The point that I made to
2 Chairman Wood, was that when the school and libraries
3 program began, we had two and a quarter billion dollars of
4 new discounts that were new to the system, that were not in
5 the system before.

6 MS. JOHNSON: Right.

7 MR. BROWN: And I'm contrasting that to take
8 interstate high cost funding. If that's increased by a
9 hundred million dollars, we'll be able to decrease the
10 interstate access by a hundred million. So, the net should
11 be zero.

12 I think what happened at the same time the schools
13 and libraries funding went in, the access charge reductions
14 also kicked in about the same time for a different reason.
15 And there were -- I think that might have been part of
16 what -- not being a long distance company, wanting to be
17 one, but not being one, that explaining -- because here they
18 had -- they were expecting a cut on their bill, and instead
19 they had this new funding for something that hadn't been
20 there before.

21 MS. JOHNSON: But didn't they get the access
22 reduction so they did get the cut in their bill?

23 MR. BROWN: They did, but they were expecting
24 that. What -- the schools and libraries wasn't in the
25 system prior to the beginning of the fund this year.

1 MS. JOHNSON: And the reductions weren't either?
2 They both came on line at the same time, didn't they? Maybe
3 Mr. Lubin --

4 MR. LUBIN: I'm probably using poor judgment to
5 interject here, but -- I should let you handle this.

6 The observation that I want to make is that in
7 terms of how competition has evolved, right or wrong, over
8 the last several years, access charges have come about.

9 MS. JOHNSON: I said access charges have gone
10 down.

11 MR. LUBIN: Access charges -- every year that
12 access charges go down. I'm focused at the Federal level.
13 I mean, states are a lot more complicated with so many
14 different issues going on.

15 All I'm saying here is that over the last five
16 years and before that, access charges continued to go down.
17 We expect that. We continue to advocate that it should be
18 greater. Sometimes it is, sometimes it isn't. But bottom
19 line is, we forecast that. We build that into our plans.
20 We make decisions.

21 And so, the point that was just being made is that
22 a lot of that was expected. A lot of that was flowed
23 through in terms of promotions, in terms of all sort of
24 different things, in terms of the way the competition works
25 in the long distance marketplace.

1 There was also another point.

2 MS. JOHNSON: Let me follow back on that one. Did
3 you receive -- and this is just for my edification. Did you
4 receive access reductions than you probably planned for in
5 the last round? I know you were saying traditionally access
6 was going down, but did not the FCC reduce them by even more
7 than had been anticipated?

8 MR. LUBIN: I'm opening up another can of worms
9 here in terms of at least what we forecasted in July and
10 January. And I would say no to you. I mean, the Commission
11 did a yeomen's job, but I'm saying to you in terms of what
12 we were working for, what we were trying to get was less.

13 MS. JOHNSON: Gotcha.

14 MR. LUBIN: But there's a second point. And the
15 second point is the industry in aggregate, come January, was
16 net a wash. They were actually, according to the last chart
17 I saw of the FCC is about \$35 million to the good. Meaning,
18 access came down \$35 million more than the USF went up.

19 MS. JOHNSON: Even including the schools and
20 libraries?

21 MR. LUBIN: Yes. Yes. And I mean, that to me,
22 when you think about it, was a huge, huge accomplishment in
23 terms of a net -- you know, lot of new money \$300 million on
24 lifeline, you know, \$600 million or whatever or however you
25 want to annualize that. I mean, that was a huge